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LIFE INSURANCE.

AMONG the multitude of mythological creations is that of an attractive lady on a rolling stone. She means that, when many variable causes operate, more or less together in time and space, it is impossible for the human mind to predict the joint effect on an individual. Of a single cause we can predict the effect by observation and experience ; of two, with some, but a less degree, of certainty ; but beyond that we begin to be in a realm where we call our ignorance chance.

Our experience of human life has taught us that every man is sure to die, some time or other, and that the insurable or productive money value of his life beyond the age of one hundred years is inconsiderable, and beyond the age of seventy-five is hardly worth mentioning. The insurable part of a man's life lies almost wholly between the ages of twenty and seventy-five, if, by reason of its usefulness to some other individual, it is insurable at all.

As to the individual man, if we know nothing about him but his age, nothing can be more uncertain than when he will die. If we know about his health, we can better guess ; if about his parentage, still better ; if about his habits, still better ; but, after all, our guess will be nothing like a certainty. After all possible care in selecting good risks and avoiding fraud, the best risk may prove the worst.

Yet there are institutions that not only guess like good prophets, but fairly insure or answer the purpose of a wise providence, to mitigate the saddest calamity that befalls man. They will agree to pay to a man's heirs or dependents, to whom it is to be presumed that his life is both valuable and dear, a certain sum of money if he dies before reaching a certain age. And the business can be done with the effect of greatly limiting the jurisdic-

tion of the lady on the rolling stone and realizing the aspiration of the Saxon poet :

“ Thy spirit, independence, let me share,
Lord of the lion heart and eagle eye,
Thy steps I'll follow, with my bosom bare,
Nor heed the storm that howls along the sky.”

Surely the utility of the business to the heirs of the man whose fate it is to die before he can have provided against their poverty or starvation is not to be denied. The utmost care of his health, or the best possible physicians, cannot make it certain that he will not die before that provision can be made. Even on a very crude, and only half scientific basis, life insurance, for the last two hundred years, has been of vast benefit to society, and has been, in spite of frequent failures, constantly improving in its methods and popularity.

The success of life insurance is founded on the facts, observed by careful statisticians, that, out of a very large number of men of a given age, a certain number will die within one year. As, for example, out of 10,000 men, all aged twenty-seven, very nearly 80 would be sure to die within one year, and out of 10,000, at the age of fifty, twice as many. If they were all apparently in good health at the beginning of the year, the mortality would be considerably less. But, as an average fact, the probability of dying within one year is determined very nearly by the figures of a mortality table, and for all practical purposes the mortality tables now in common use substantially agree. That most commonly used is founded on the experience of the seventeen largest offices in England, and was prepared in 1843. It has since been confirmed by a larger experience of English offices as well as American. As to the risk or probability of dying, if a company acquires at a moderate expense—and it ought to be much more moderate than it often is—a well-selected and sufficient number of risks, well spread as to locality, it may safely trust either of the mortality tables. A company consisting of too few members needs to have its own life insured. It must be subject to failure unless guarantee capital supplies the place of numbers till it has acquired them.

Life insurance is of very gradual growth. Its history is too voluminous for my space. But a glance into it may answer a good

purpose in default of the algebraic language which is necessary to explain its methods.

The American who first drew the Protean life-principle out of the clouds was sent to the mother country to secure justice for her then infant colonies. He there became acquainted with Dr. Richard Price, who, by his scientific labors, was restoring the vitality of British life insurance, then in a ruinous condition, because it had been founded on guess-work. Both these men recognized the relations of capital and labor—that capital is the child of labor—and that there can be no social or national prosperity where the child enslaves the parent. They both believed that extreme poverty was not a necessary evil, that coöperative institutions might be founded by which every industrious man could save himself and family from pauperism, let death do what it might. Dr. Price showed how the perpetual solvency of a life insurance company may be maintained on annual premiums not increasing with the increasing risk of age, as was abundantly illustrated in the career of the London Equitable. But he, unfortunately, did not provide an equitable method by which a coinsuring member could retire from the society when he ceased to need further insurance, or was unable further to pay the annual premium. Here has remained a very important question, practically, if not theoretically, unsolved nearly to the present time.

The present writer cannot better explain the working of this defect than by stating what fell under his own observation, when, in the year 1844, he visited England as a peddler of Sparks' Lives of Franklin and Washington, as well as of a publication of his own. He had from the Massachusetts Hospital Life Insurance Company, a corporation chartered in 1816, a commission to procure information for its use on life insurance, and a letter of introduction to Joshua Milne, the author of the "Carlisle Table of Mortality," and other statistical works, then at the head of the Sun Life and Fire Office. That gentleman, in his sixty-ninth year, received me most graciously, and communicated to me even more information than I was capable of holding. About a week afterward, I was invited by John Kenyon, a well-known London Mæcenas, to one of his literary breakfasts, where I met such men and women as Samuel Rogers, B. W. Procter (better known here by his *nom de plume* of Barry Cornwall), Robert Browning, Miss Mitford, Elizabeth Barrett (afterward Mrs. Browning), and others. Proc-

ter, sitting next to me, asked me pleasantly, "What of the London lions have you seen?" "The Thames Tunnel," I replied, "is the largest; but the most interesting to me has been the Sun Life Office, where I have learned a good deal about life insurance that was new to me." "Life insurance!" broke out Mr. Procter; "it's the biggest humbug in Christendom." I was quite thunderstruck, but managed, after a little hesitation, to say "You surprise me, Mr. Procter. If I had not taken a policy from a life company just started in Boston, I should not have dared to cross the water, leaving a wife and five children on the other side." "Go to the Royal Exchange," said Mr. Procter, "Thursday afternoon, at three o'clock, and you will see what I mean." I assured him I should do so, and did. What I saw at that sublime center of trade was a sale at auction of several old policies on very aged men to speculators, apparently of the Hebrew persuasion, to be kept up by them by their paying annual premiums to the company till the decease. This was done, I was told, because the companies had made it a rule "*never to buy their own policies.*" A poor rule, it seemed to me! I had seen slave auctions at home. I could hardly see more justice in this British practice. If I should ever become old myself, I thought, I should not like to have a policy on my life in the hands of any man with the slightest pecuniary motive to wish me dead. This, then, was what had disgusted the sweetest songwriter in England with life insurance!

I soon found there was a reasonable act of Parliament against the issue of a policy in the absence of insurable interest on the part of the policy-holder in the life of the insured, but no law whatever against the continuance of one, after all insurable interest had ceased; on the contrary, a judge-made law allowing it. I resolved, if I ever returned to America, it should be otherwise here, if my voice could avail.

However, when I returned home, I found that by the terms of the policy—generally copied from the English form—the same thing might be done as in England, though there was generally, outside of the policy, a promise to pay an equitable surrender value in case the insured should wish to withdraw and give notice to that effect before premium became due. But it was left with the company to say, after the notice, what payment should be equitable. If a case was ever carried into court, the court only looked into the policy, and finding stipulated there no return

of any part of the premiums, but rather the reverse, compelled none.

Dr. Price's great improvement consisted in commuting the series of net natural premiums, increasing annually with the tabular risk, into a level or constant series for the whole term of insurance. And this made the business of the company, from first to last, consist of two distinct parts—insurance and banking, or, insurance and self-insurance. A certain part of every premium—or, at any rate, of any of the earlier ones—goes to pay the party's bet that he will not die in that year, and of course goes toward paying the claims arising on those who do die. The other part goes into the invested or reserved fund, accumulating at a certain interest, but the whole of it, with its interest, comes out in case the party himself dies, because he himself has insured that part of the face of the policy, and not the company.

Curiously enough, Dr. Price's net level or constant premiums had a provision for expenses attached to them by adding a certain percentage of the net premium to itself. There was no justifiable logic for that form of provision, and, plainly enough, it had better have been a percentage on the face of the policy or a specific yearly due, variable and corresponding with the work done by the company. It had the effect, by discounting the bonded future premiums into present resources, to make the assets of many a "Diddlesex concern" vastly exceed the tabular liability on its policies, while it was marching to inevitable bankruptcy. Our State departments, by early adopting the test of a net valuation, have saved most of the present companies from that rock. All, perhaps, might have been saved if fewer had been created.

What led to a different practice in this country from the English, was the willingness of some companies to receive a part of the annual premium in a note of the insured bearing interest at six or seven per cent. If this note were not more than half of the annual premium and the interest were paid in advance every year, not only the note (unless the party entered at a very advanced age) might lie unpaid till the policy became a claim, but another note to the same amount, and on the same conditions, might be taken safely for every succeeding premium. As these notes, being a part of the reserve or self-insurance on the policy, were applicable, as far as they would go, to pay the widow's or beneficiary's claim, it was pretty plain to ordinary comprehension that if the insured lived to

die at an advanced age, his widow or children would get little, or perhaps nothing, but a dead husband's or father's notes. This obvious consideration led the companies to promise that the divisible surplus of cash over claims and expenses would be such as to cancel the notes, so that not more than five or six would ever be outstanding—a prophecy which facts hardly warranted in the most successful and economical of the companies. In many cases the half-cash part of the premium with the interest on the uncanceled notes became fully equal to an all-cash premium. But what happened of more significance was, that in case of lapse on a policy, with premium note or notes outstanding, the company did not enforce collection. If any company had resorted to law to enforce the payment of such notes, the question would have arisen whether the maker of the note had received any value. Plainly not. The policy was canceled on the non-payment of cash and another note on its anniversary. The obligation to pay the notes ended with the insurance. The past insurance had been fully paid for by the cash already received by the company, and enough more, commonly, to compensate the company for the damage by the lapse.

This settled the question, for law does not, or should not, undertake to force payment on notes, only where value has been received, or damage would be inflicted by non-fulfillment of a contract. As many policies lapsed on which the full premiums had been paid in cash, a State legislature was forced to interfere so that all-cash payers should not, in such a case, be treated worse by the very companies it had chartered than those who had paid half in notes. This was the cause of the Massachusetts Non-forfeiture Act of 1861. It did not compel the return of any cash, but only so much further term insurance as four-fifths of the cash reserve on the policy would pay for. It was not a very scientific or thorough treatment of the subject, but clearly better than nothing in the interest of equity between policy-holders.

It seems unfortunate that the regulation of insurance—a subject which interests all parts of our vast republic, and in which one part depends so much on another—should be so much at the mercy of conflicting State laws. If insurance had fallen, in the opinion of the wisest interpreters of our national constitution, into the category of “commerce between the States,” it might have been otherwise. But as it is, there is nothing for it but to cultivate comity between the States, and, restricting State legislation to cor-

porations of its own creation, to wait for the best laws to prevail in other States, according to their wisdom and equity. It would border on bigotry, if not cruelty, to restrict the citizens of a State from dealing with the corporations of another State, considered by themselves as more honest, or profitable, than any corporations of their own State. American liberty will never brook any legislation to *think* for it.

Games of chance are characteristic of the human race and have amounted to a passion, from time immemorial, in all countries. As science increases, the passion subsides. Governments, inclined to be paternal, have labored more and more to repress them. The time is not beyond the memory of old men when lotteries were licensed in favor of building churches, bridges, and other desirable public works. They are now reduced nearly to grab-bags.

All insurance is essentially a game of chance, and cannot be well understood without resorting to the mathematical laws of probability. So true is this, that the law of New York makes an express exemption of insurance from the penalties against gambling, on the ground that it really reduces the inequality of fortune.

Nothing is more certain than that all the utility which has resulted from life insurance has come from the investigations of such minds as Pascal, DeWitt, De Moivre, Price, and Quetelet into the problems of chances. Yet it is not less true that the best thing that can be done for life insurance is to clear it as much as possible from the influence or interference of the gambling passion, which is prone to infect it, and tempt some policy-holders to adopt any plan which bids fair to get their insurance partly paid for at the expense of others, always apt to result in the detriment of coinsurers less fortunate. The game, to be perfectly fair, should involve no contingency except that between life and death.

The same two assumptions of mortality and interest, on which Dr. Price founded his calculations of the net level provisions which would maintain the solvency of a company, were equally available for the calculation of a rule of equitable and safe surrender. The neglect to establish any such rule resulted in a vast unpopularity of life insurance with the humbler classes of society, leading to societies constructed with a good deal of benevolence but no science at all, and sure to fail shortly ; and making many sensible people remark, like the fox in the fable, that life insurance companies were lion's dens, with all the tracks leading inward.

One of the most unfortunate things that ever happened to American life insurance was a proposition made, some sixteen or seventeen years ago, to one of the largest and best managed of our companies, to carry on one branch of its business on a plan which would result in making insurance cheaper to the richest and most fortunate, than to the poorer and unfortunate. Most fortunately it was never carried into practice according to the plan proposed, though the name by which it was distinguished was improperly adopted, and has led to a world of misapprehensions.

There existed, perhaps as long ago as life insurance itself, an institution called from the name of its inventor a Tontine, almost exactly the reverse of life insurance, whereby property, thrown into a common stock, in the case of a member's death, reverted to the company, till the last survivor owned the whole for himself and his heirs. Nothing could exceed the absurdity of attempting to increase the attractions of life insurance by adding to it that of "tontine." Even the name should have been avoided, as the fact really was.

William Morgan, the President of the London Equitable, founded on the labors of Dr. Price, in his preface to the sixth edition of "*Price's Annuities*," very forcibly says: "Of all the phantoms which are held up to entice and to deceive the public, none are more mischievous or deserve more severe reprehension than the Tontines which have lately prevailed so much in every part of this country. By these, while the adventurer is flattered with the extravagant hope of making his fortune in a short period and at a small expense, the worst spirit of gambling and idle speculation is called forth, and all those baneful effects which are produced by a State lottery in London are extended to the remotest corners of the kingdom."

Happily, the very popular life insurance company, to which I have referred, never adopted the plan proposed, in 1868, except as to the attractive misnomer. The plan, if it had been true to the name, would have required by this time perhaps forty-eight distinct tontine classes, eleven of which would have terminated with quite various results as to the profits, or effects on the cost of the insurance, to the survivors of the different classes. But no such distinction of classes was made; therefore, there was no tontine. What was done, was to reduce the possible terms during which forfeiture of reserve and surplus could take place, from the whole

extent of the policy, to terms of ten, fifteen, or twenty years, at most—a manifest improvement on the plan of the London Equitable, so far as whole-life policies are concerned. The “tontine” profits to survivors of any tontine term have never been determined by the actual facts as to the lapses of members for the same term, but by a general hypothesis as to the probable losses, both past and future, applying to all tontine members.

It is a very amusing fact that the real nature of what is called tontine insurance has been so mystified by a word which has no application to anything ever done in this country, that the Ohio legislature has entered into a grave and expensive investigation into it, without sensibly diminishing the fog, or discovering that the whole trouble, so far as there is any, lies in not having an equitable rule, involved in the charter of the corporation, or embodied in the policy itself, for its cash surrender when its further premium becomes due and is not paid.

If a man for the protection of his dependent family wishes to make a contract with a life insurance bank, for better or worse, to cover his whole life, and by its terms to forfeit whatever he has in the bank and its interest, together with any surplus from his payments over the cost of the insurance he has enjoyed, whenever he wishes to retire, why should he be precluded by law? Must we depend altogether on statutes to keep fathers from giving away their own interests? Yet, as no such forfeitures as above described are necessary for the solvency of a life insurance company, a legislature may very well refuse to give companies of its own creation the right to make contracts which no well-informed citizen, not of a speculative turn of mind, would take.

There is no possibility of illustrating a subject so wide as life insurance in its application to all grades and classes of society, and so various in its forms of procedure, motives, and plans, within the space of a moderate article. I can only say, in closing, that some of the most faulty plans have been worked by men whose honesty has been faultless, and their energy has achieved such vast results as to counteract the malign effects of the faults they have adopted. Socially, life insurance, as it stands, is one of the brightest spots in our national horizon, and it is extending its influence from ours to other continents.

ELIZUR WRIGHT.